

Message Text

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ACTION NEA-12

INFO OCT-01 ISO-00 L-03 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 ABF-01 DRC-01

PA-04 PRS-01 USIE-00 AGR-20 SPM-01 SSO-00 INRE-00

(ISO) W

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC IMMEDIATE 8460

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E.O. 11652: N/A - DECLASSIFY ON RECEIPT.

TAGS: EFIN, IN

SUBJECT: RUPEES

1. GOI HAS DECIDED NOT ISSUE TEXT OF AGREEMENT. WE HAVE EXPLAINED TO THE GOI THAT WE MUST SUBMIT TEXT TO CONGRESSIONAL COMMITTEES AND THAT IT WILL BECOME A PUBLIC DOCUMENT AT THAT TIME. ACCORDINGLY, WE STRONGLY URGE THAT THE DEPARTMENT NOT RPT NOT ISSUE TEXT OF AGREEMENT UNTIL IT HAS BEEN SUBMITTED TO CONGRESSIONAL COMMITTEES, WHICH WE HOPE CAN BE DONE QUITE PROMPTLY (SEE SEPTTEL). IN THE MEANTIME, THE DEPARTMENT MAY WISH TO UTILIZE THE FOLLOWING "FACT SHEET" WHICH THE EMBASSY IS MAKING AVAILABLE TO NEWSMEN IN INDIA.

"FACT SHEET"

"IN DECEMBER 13, 1973 AMBASSADOR DANIEL P. MOYNIHAN AND MR. M. G. KAUL, SECRETARY, DEPARTMENT OF ECONOMIC AFFAIRS, MINISTRY OF FINANCE, INITIALED AN AGREEMENT DEALING WITH US HOLDINGS OF RUPEES ACQUIRED AS A RESULT OF US ECONOMIC ASSISTANCE TO INDIA OVER THE PAST TWO DECADES.

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" THE AGREEMENT PROVIDES THAT THE GOVERNMENT OF INDIA WILL

PREPAY ITS RUPEE LOAN OBLIGATIONS WHICH, IN THE ABSENCE OF SUCH PREPAYMENT, WOULD HAVE RUN UNTIL THE YEAR 2013. THE UNITED STATES WILL GRANT TO THE GOVERNMENT OF INDIA, PURSUANT TO PUBLIC LAW 480 LEGISLATION, ABOUT RS. 1664 CRORES TO BE EXPENDED DURING THE FIFTH FIVE-YEAR PLAN FOR CERTAIN DEVELOPMENT PURPOSES. THE UNITED STATES WILL RETAIN OVER RS. 750 CRORES.

"INITIALING OF THE AGREEMENT IS ONLY THE FIRST STEP. THE AGREEMENT CANNOT BE EXECUTED UNTIL IT HAS BEEN SUBMITTED TO THE AGRICULTURE AND FOREIGN AFFAIRS COMMITTEES OF THE HOUSE OF REPRESENTATIVES, AND THE AGRICULTURE AND FOREIGN RELATIONS COMMITTEES OF THE SENATE, AND TO THE INDIAN PARLIAMENT. IF THIS PROCESS IS SATISFACTORILY COMPLETED, FORMAL SIGNING AND EXECUTION COULD FOLLOW IN MARCH 1974.

"THE AGREEMENT CONTAINS TWO SUBSTANTIVE PARTS: I, PUBLIC LAW 480 RUPEES; AND II, NON-PUBLIC LAW 480 RUPEES.

"PART I-PUBLIC LAW RUPEES

"THE GOVERNMENT OF INDIA WOULD AGREE TO PREPAY ALL ITS OUTSTANDING RUPEE LOANS, WHICH, IF ALLOWED TO RUN FOR THE FULL DURATION OF THE LOANS WOULD HAVE MADE THIS FIGURE ABOUT RS. 3,000 CRORES ASSUMING THAT U.S. EXPENDITURES REMAIND AT RECENT LEVELS. FROM THESE PROCEEDS AND RUPEES ALREADY HELD BY THE UNITED STATES GOVERNMENT, THE UNITED STATES WOULD GRANT APPROXIMATELY RS. 1,664 CRORES TO THE GOVERNMENT OF INDIA FOR DEVELOPMENTAL PURPOSES DURING THE FIFTH FIVE-YEAR PLAN.

" THE SECTORS IN WHICH THESE FUNDS WOULD BE UTILIZED AND THE AMOUNTS OF THE GRANTS FOLLOW:

"1. AGRICULTURE	RS. 1,000 CRORES
"2. HOUSING	RS. 180 CRORES
"3. FAMILY PLANNING	RS. 105 CRORES
"4. HEALTH	RS. 40 CRORES
"5. TECHNICAL EDUCATION	RS. 35 CRORES
"6. POWER/CENTRAL SECTOR	RS. 70 CRORES
"7. POWER/STATE SECTOR	RS. 180 CRORES
"8. RURAL ELECTRIFICATION	RS. 54 CRORES

IN THIS MANNER THE UNITED STATES GOVERNMENT WOULD HAVE GRANTED TO THE GOVERNMENT OF INDIA VIRTUALLY ALL ITS HOLDINGS OF PUBLIC LAW 480 RUPEES. THE ONLY SIGNIFICANT EXCEPTION WOULD BE A SMALL NUMBER OF LOANS TO INDIAN PRIVATE FIRMS AND A LARGER NUMBER OF LOANS TO JOINT US-INDIAN FIRMS (COOLEY LOANS) LIMITED OFFICIAL USE

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WHICH WOULD BE COLLECTED BY THE UNITED STATES GOVERNMENT AS ORIGINALLY SCHEDULED. IN DISCHARGE OF EARLIER "CONVERSION OBLIGATIONS," THE US WOULD BE PERMITTED TO CONVERT INTO DOLLARS APPROXIMATELY \$64 MILLION OVER THE NEXT TEN YEARS.

"PART II - NON-PUBLIC LAW 480 RUPEES

" THE GOVERNMENT OF INDIA WOULD ALSO AGREE TO PREPAY ALL OF ITS OUTSTANDING NON-PUBLIC-LAW 480 RUPEE LOANS DERIVED FROM

AID DOLLAR LOANS WHICH WERE REPAYABLE IN RUPEES. THESE PAYMENTS, PLUS ENCASHMENT OF CERTAIN SECURITIES AND HOLDINGS WITH INDIAN BANKS, TOTAL APPROXIMATELY RS. 750 CRORES MOST OF WHICH WOULD BE HELD IN AN INTEREST-FREE SPECIAL ACCOUNT IN THE PUBLIC ACCOUNT OF THE GOVERNMENT OF INDIA AND WOULD BE UTILIZED TO FINANCE FUTURE UNITED STATES GOVERNMENT EXPENDITURES.

"UNITED STATES GOVERNMENT USES OF RUPEES, NOT INCLUDING GRANTS TO THE GOVERNMENT OF INDIA AND INDIAN INSTITUTIONS, HAVE BEEN RUNNING ABOUT RS. 38-45 CRORES PRE YEAR. SUCH USES CURRENTLY INCLUDE THE RUNNING AND MAINTANANCE OF THE EMBASSY AND THREE CONSULATES GENREAL, FRIEGHT AND PORT CHARGES FOR LARGE AMOUNTS OF FOOD DONATED BY PRIVATE VOLUNTARY AGENCIES TO INDIAN STATES, JOINT RESEARCH ON SCIENTIFIC, AGRICULTURAL, AND MEDICAL PROBLEMS, AND OPERATION OF THE PEACE CORPS. THE AGREEMENT WOULD PROVIDE FOR CERTAIN ADDITIONAL USES OF RETAINDE RUPEES. THSSE INCLUDE:

"(A) THE FINANCING FOR THREE YEARS OF A RS. 6.5 CRORES PRE YEAR US AID PROGRAM IN NEPAL;

"(B) THE PURCHASE AND EXPORT FOR UNITED STATES GOVERNMENT USE OF UP TO \$100 MILLION OF INDIAN GOODS AND SERVICES. ONE-QUARTER OF THE COST OF SUCH PURCHASES COULD BE FINANCED FROM RETAINED RUPEES WHILE THREE-QUARTERS WOULD BE PAYABLE IN DOLLARS.

" THE AGREEMENT ALSO CONTAINS A "MAINTENANCE OF VALUE" PROVISION, PARALLEL TO PROVISIONS IN EARLIER LOAN AGREEMENTS. THIS PROVISION, WHICH APPLIES TO ABOUT 390 CRORES OF RETAINDE RUPEES DECLINING OVER A TEN-YEAR PERIOD, WOULD OPERATE TO MODERATE SIGNIFICANT CHANGES IN THE DOLLAR EQUIVALENCE OF RETAINED RUPEES WHICH MIGHT OTHERWISE TAKE PLACE AS A RESULT OF CURRENCY FLUCTUATIONS."

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENTS, FOREIGN RELATIONS, RUPEE, CENTRAL LEGISLATURE
Control Number: n/a
Copy: SINGLE
Draft Date: 13 DEC 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973NEWDE14628
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731227/aaaaatme.tel
Line Count: 154
Locator: TEXT ON-LINE
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 20 DEC 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20-Dec-2001 by shawdg>; APPROVED <11-Jan-2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: RUPEES
TAGS: EFIN, IN, US
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005